

HOUSING MARKET OUTLOOK

Regina CMA

Canada Mortgage and Housing Corporation

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NEW HOME MARKET

Single-detached starts active but slowing down

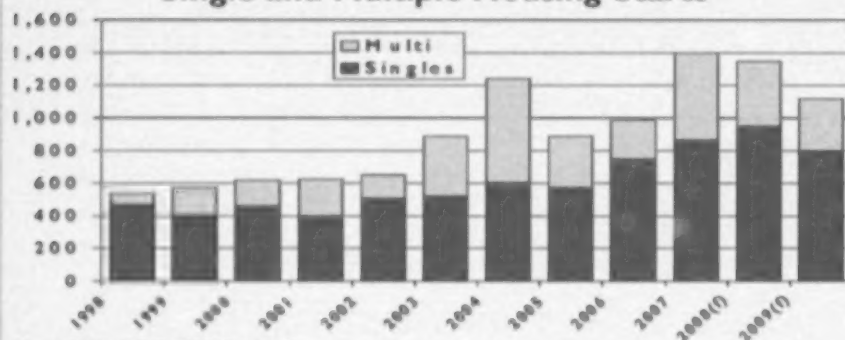
CMHC forecasts that builders will finish the year in 2008 with 950 single-detached homes starting construction, the best performance since 1986. This represents an increase of ten per cent over 2007. In 2009, single-detached starts are expected to dip down 15.8 per cent, finishing the year with 800 starts. Despite the decline in 2009, activity

will still be well above historical averages.

Saskatchewan's growing economy, rising wages and the influx of new migrants has provided a strong incentive for builders to boost production this year. In the beginning of the year, single-detached starts were on an impressive pace, up 50 per cent from 2007. However, as the year progressed, the year-to-date gains seen in the beginning of the year started to diminish.

Figure 1

Single and Multiple Housing Starts



Source: Source: CPBHC, CPBHC Forecast (f)

Table of contents

1 New Home Market

Total housing starts are expected to decline 17 per cent in 2009. Even with the slow down, new home construction in will remain strong in a historical context.

3 Resale Market

Following an 18 per cent drop in 2008,

MLS® sales will decline 14 per cent next year.

4 Rental Market

Vacancy rate in Regina is forecast to reach a record low of one per cent in October

2008 and slightly increase to 1.2 per cent in 2009.

4 Economic Outlook

5 Mortgage Rate Outlook

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By the end of August, year-to-date starts were 20 per cent higher than 2007 levels. While strong, this represents a significant departure from the 50 per cent gains earlier in the year. Increasing competition from the resale market and the record level of supply is putting pressure on builders to reduce production. Single-detached starts by the end of the year are expected to finish ten per cent higher than in 2007. The negative impact on starts from the competing resale market and rising units under construction will become more apparent in 2009, pushing starts lower.

The supply of single-detached units, which includes units that are under construction and units completed and unoccupied, are currently at record levels and rising. As of August, there were over 900 units of supply and a majority of these were still in the construction phase. The number of units under construction were at their highest levels since 1983. Although there are buyers for new homes, builders have been challenged to find skilled workers to expedite and complete construction. However, homes that have been finished do not stay unsold for long as they are absorbed swiftly upon completion. CMHC's analysis shows that absorption levels were up 19 per cent compared to 2007. While strong, builders must also be aware of rising inventories heading into the 2009. The inventory of complete and unabsorbed units has been rising and at the end of August more than doubled the total in 2007.

Average price of new singles to reach \$360,000 in 2008 and \$396,000 in 2009

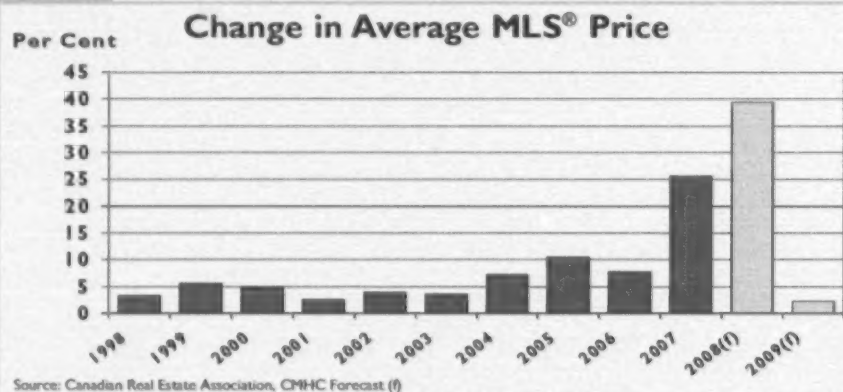
New home prices have seen strong gains in the last couple of years. The average price of single-detached units absorbed in 2007 was up 23 per cent and double-digit price growth is expected to continue into 2008 and 2009. The rising costs for land and the premium for skilled labour will be major contributors in the price for a new home. New home average values are expected to increase 18 per cent in 2008 reaching \$360,000 and by another 10 per cent to \$396,000 in 2009. However, demand for a new home is expected to soften as escalating costs will have some potential buyers reconsidering or turning to the less expensive resale market for a home.

Given the persistent rise in new home prices, Regina is experiencing a greater percentage of homes absorbed in the higher price ranges. As of August, over 60 per cent of homes were absorbed at prices

above \$300,000, up 20 percentage points from a year ago. The number of homes absorbed between \$400,000 and \$499,999 saw the greatest increase, up 200 per cent from the previous year. Conversely, the sharpest decline in absorptions was found in the \$200,000 to \$249,999 range, down 45 per cent from a year ago.

The New Home Price Index (NHPI) measures the change in price for a new home, while keeping the specifications of each home constant over two consecutive periods. At the end of 2007, the NHPI was up over 25 per cent. The increase in the home price was dominated by costs associated with construction as opposed to land. In particular, higher wages were required to attract skilled workers as they were in short supply. These conditions are not expected to change throughout the forecast period. In 2008, the NHPI is anticipated to increase 23 per cent before moderating to nine per cent in 2009 due to weaker starts.

Figure 2



Multi-family housing starts will decline in 2008 and 2009

Following a year where builders started more than 500 multiple units for only the second time since 1983, starts in 2008 are forecast to fall 25 per cent to 400 starts. In 2009, multiple starts will decline a further 20 per cent to 320 units. The reduction in starts will not be a result from the lack in demand but from elevated supply-side conditions. Despite the decline, the forecast for both years will remain above historical averages.

Demand for multiple units is anticipated to remain steady as the proportion of seniors and empty-nesters in the population rises. The maintenance-free lifestyle that multiple units offer will continue to attract this demographic. In addition, first-time home buyers will also look to multiples as a more affordable alternative to higher-priced single-detached homes.

There have been over 200 multiple units absorbed in the first eight months of the year. This was slightly down from 2007 but still comparable with the last couple of years. About 49 per cent of the multiples absorbed were row units while 45 per cent were apartment units. Although demand for multiple units are expected to be well supported, growing inventories and increased competition from the resale market will signal builders to cut back starts.

At the end of August, the supply of multiples was near record levels with 528 units, up 11 per cent from the previous year. A majority of these

units, 96 per cent, were still in the construction phase of development while very few units were completed and unoccupied. Many of the units under construction will be completed in 2009 and will compete for buyers in both the new home and resale markets.

RESALE MARKET

Economic conditions over the forecast period will still support demand for resale homes

Sales in 2008 will fall 18 per cent from the record breaking year set in 2007. Despite the decline, at 3,250 units, MLS® sales will be the second best year on record. In 2009, sales are forecast to fall another 13.8 per cent to 2,800 units.

Economic conditions over the forecast period will still support demand for resale homes, however not at the same levels as in 2007. The city of Regina will not encounter the same influx of new migrants that occurred a year ago as many of the advantages of moving to Saskatchewan, such as lower housing costs, are no longer present. Home prices have rapidly escalated, deterring potential migrants away as well as inhibiting prospective first-time buyers from purchasing a home. In addition, there will be fewer opportunities for investors to make profits as the market has moved away from sellers' conditions and a majority of the price gains have already been realized. These factors will all contribute to less demand for resale homes.

Active listings have rapidly escalated in the last couple of months, reaching levels not seen since 1990. Monthly sales have been trending downwards and unable to keep up with the new listings. Many homeowners and investors have been listing their homes trying to capitalize on recent price gains, while others are trying to sell their current house before taking possession of their new one. By the end of August, the rise in new listings and falling sales had pushed active listings above 1,600 units, representing a 138 per cent increase from a year ago.

The growth in active listings has caused dramatic changes in the supply of homes this year. In the first four months of the year supply conditions were tight, averaging 1.5 months of supply. Under these settings the market heavily favoured the seller and produced the strongest year-over-year price gains on record. However, these conditions would not last as active listings quickly climbed and sales declined. By the end of August the duration of supply had almost quadrupled to 6.4 months.

Record price growth in 2008, not to be sustained in 2009

In 2008, the average MLS® price is forecast to increase a record 39 per cent over the average price in 2007, reaching \$231,000. The coming year will not record the same extraordinary price growth experienced in 2008, due largely to weaker sales and elevated listings. The average price for an existing home in 2009 is forecast to reach \$236,000, repre-

senting an increase of only 2.2 per cent.

A majority of the price growth in 2008 occurred in the beginning of the year. Sales in the first four months were amongst the highest on record and up 14 per cent compared to 2007. In addition active listings were at near record lows and as a result there was less than two months of supply. During this time, buyers had to compete for the limited number of quality listings that were on the market, putting a lot of upward pressure on prices.

Moving into the latter half of 2008, the resale market took a sharp turn. Monthly sales began to quickly fall behind 2007 levels, and are now trending downwards. With supply edging towards buyers' conditions, the upward pressure on price growth is easing. However, the effects that these conditions will have on price growth will not be fully felt until 2009, as 2008 has already made strong gains earlier in the year.

RENTAL MARKET

Vacancy rates reaches a record low in 2008

The apartment vacancy rate in Regina is forecast to reach a record low of one per cent in October 2008 and slightly increase to 1.2 per cent in 2009. Despite the limited vacancies, Regina will continue to be an attractive destination for many migrants. With a steady flow of people moving to the city, demand for rental accommodations will remain elevated as new migrants tend to rent before purchasing a

home. For the existing residents, the rapid rise in home values will force some renters from moving into homeownership.

The rental market will also feel the pinch from the supply side of the market. There have not been any rental units started in 2008, and most of the earlier units under construction have already been completed. In other words, the supply of property managed rental units is not expected to see any substantial change in the near future. While, the secondary rental market will be a source of supply to renter households as more investor-bought multiple units are completed, vacancy rates in the property managed rental market are expected to remain low.

The average apartment rent will continue to experience upward pressure from record low vacancy rates and rising incomes. The average rent for a two-bedroom apartment is forecast to increase to \$760 in 2008 and \$855 per month in 2009.

ECONOMIC OUTLOOK

Regina's Economy Continues to Create Jobs

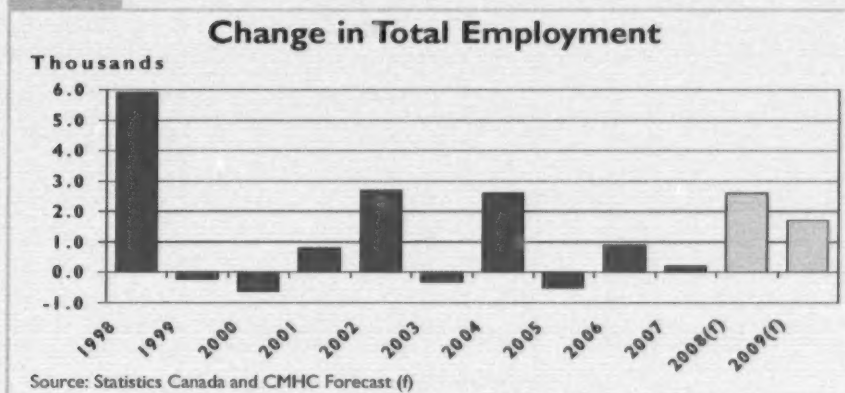
Regina has been riding the coattails of Saskatchewan's expanding economy in 2007 and is expected to continue throughout the forecast period. The rise in commodity prices in the agriculture and resource markets has been a major factor in the provincial economy's prosperity. As a result, the economic

outlook for Regina is favourable. Higher demand for Saskatchewan's natural resources will inevitably translate into more job creation for the capital region. Added employment growth will help support housing demand. Employment in 2008 is forecast to increase 2.3 per cent reaching 112,400 jobs.

The growing economy has fostered job creation in many sectors, however the trade and manufacturing sectors in the economy have been the most active. With the influx of people migrating to the city, wholesale and retail trade sectors have been busy finding staff to keep pace with the up-tick in sales. On the manufacturing side, improvement in natural resource markets has increased demand for manufacturing services in Regina. As a result, manufacturers have also hired more workers to keep up with demand. Improved employment in the trade sectors will help bolster demand for rental accommodations while employment growth in higher paying jobs, such as in the manufacturing sector, will strengthen demand for homeownership.

The expanding economy has been pinching the labour market. As recently as September, the unemployment rate was 4.1 per cent. In addition, the tight labour market conditions have pushed the participation rate above 71 per cent. As a result employers are having to create full-time positions over part-time. Year-to-date, there have been over 3,000 jobs created, all of which where in full-time positions. Meanwhile, the tight labour market is pushing wages upwards. The unemployment rate is not expected to see

Figure 3



much change in 2009. Due to these labour market conditions, employment growth will be heavily dependent on new migrants.

In the last couple of years, Regina has experienced impressive gains in net migration due to the growing economy and ample employment opportunities. In 2008, CMHC forecasts these gains to continue with net migration reaching 2,600. In 2009, CMHC's forecast is calling for 2,200 in net migration. Although net migration will still be solid in 2009, it will not be enough to alleviate the

tight labour market conditions and allow for greater employment growth. Employment in 2009 is forecast to increase to 114,100, up 1.5 per cent.

MORTGAGE RATES

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will

decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

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Forecast Summary Regina CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	2,730	2,953	3,957	3,250	-17.9	2,800	-13.8
MLS® New Listings	4,066	4,197	4,661	6,300	35.2	5,800	-7.9
MLS® Average Price (\$)	123,600	131,851	165,613	231,000	39.5	236,000	2.2
New Home Market							
Starts:							
Single-Detached	572	749	864	950	10.0	800	-15.8
Multiples	316	237	534	400	-25.1	320	-20.0
Starts - Total	888	986	1,398	1,350	-3.4	1,120	-17.0
Average Price (\$):							
Single-Detached	218,612	247,392	305,290	360,000	17.9	396,000	10.0
Median Price (\$):							
Single-Detached	213,057	242,499	291,100	357,000	22.6	392,700	10.0
New Housing Price Index (% chg.)	6.4	8.6	22.2	23.0	-	9.0	-
Rental Market							
October Vacancy Rate (%)	3.2	3.3	1.7	1.0	-	1.2	-
Two-bedroom Average Rent (October) (\$)	607	619	661	760	-	855	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-	6.31	-
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-	6.92	-
Annual Employment Level	108,600	109,600	109,800	112,400	2.4	114,100	1.5
Employment Growth (%)	-0.5	0.9	0.2	2.4	-	1.5	-
Unemployment rate (%)	4.9	4.9	4.9	4.2	-	4.1	-
Net Migration ⁽¹⁾	-30	2,126	3,000	2,600	-	2,200	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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